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Talking Points

The New Argentine Debt Crisis

Beginning around mid-September, the Argentine debt problem is likely repeatedly to make front-page news. The following events will occur in quick succession:

- o On 13-14 September, the so-called Cartagena Group of Latin American debtors will have its second meeting, at which the Argentine debt problem will be prominent, and the Group will be trying to agree on some pressure tactics to use at the bank-Fund meeting.
- o On 15 September, Argentina is scheduled to repay, but almost certainly will not, an emergency loan of \$750 million.
- o On 24-27 September, the annual joint meeting of the World Bank and the IMF will take place; 25X1
- o On 24 September, President Alfonsin will address the U.N.
- o On 30 September, Argentina will be at least \$900 million in arrears in its interest payments; this will force those US banks which have not already done so to put Argentine loans on a non-accrual basis.
- o In late October, the US regulatory agencies will meet to consider further classification of Argentine loans, including whether to classify them "value impaired," which would virtually preclude any further bank credits to Argentina.

The chances are that Argentina will not obtain any concessions from the banks or the creditor governments until it has an agreement with the IMF on a Letter of Intent. Despite occasional optimistic Argentine statements, there appears to have been little progress toward such an agreement. There is obviously a risk of a serious confrontation between Argentina and its creditors by the end of September.

Nevertheless, there is cause for some optimism. Recent press articles and 25X1 suggest that inflation, which has recently been accelerating to an annual rate of over 1,000 percent, is being viewed by the Argentines as the critical problem. The Argentine government may soon have to deal with this problem, which would then make it much easier to come to terms with the IMF.

- o Labor apparently is coming to realize that promises to raise real wages do not mean much when inflation is out of control.
- o Consumers spend more and more time shopping, inventories are disappearing, and production probably is being disrupted.

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- o The government has announced elements of a program to gradually reduce inflation, but this is unlikely to work because events are so far out of control.
- o More drastic measures almost certainly will be necessary before the Argentine economy can resume economic growth.
- o Alfonsin could come to the conclusion that the population is ready to accept, and perhaps even welcome, a strong stabilization program designed to break inflation that would cause everyone some temporary pain, but could be presented as an essential prerequisite for a resumption of economic growth. However, there is as yet no sign that he intends to do this.

If there is no IMF agreement by late September, Treasury is proposing to put pressure on Argentina by working both with other creditor countries and with the better behaved debtors, like Mexico and Brazil. We believe that pressure would be counterproductive and that, for the reasons just mentioned, the Argentines may make the right moves for their own internal reasons.

- o External pressure would make it politically impossible for the Argentine government to come to terms with the IMF.
- o Moreover, until Argentina decides how it wants to deal with inflation, any IMF agreement would be meaningless.
- o The best thing for the US and the IMF to do is to stay out of the way until the Argentines have sorted out their own problems.